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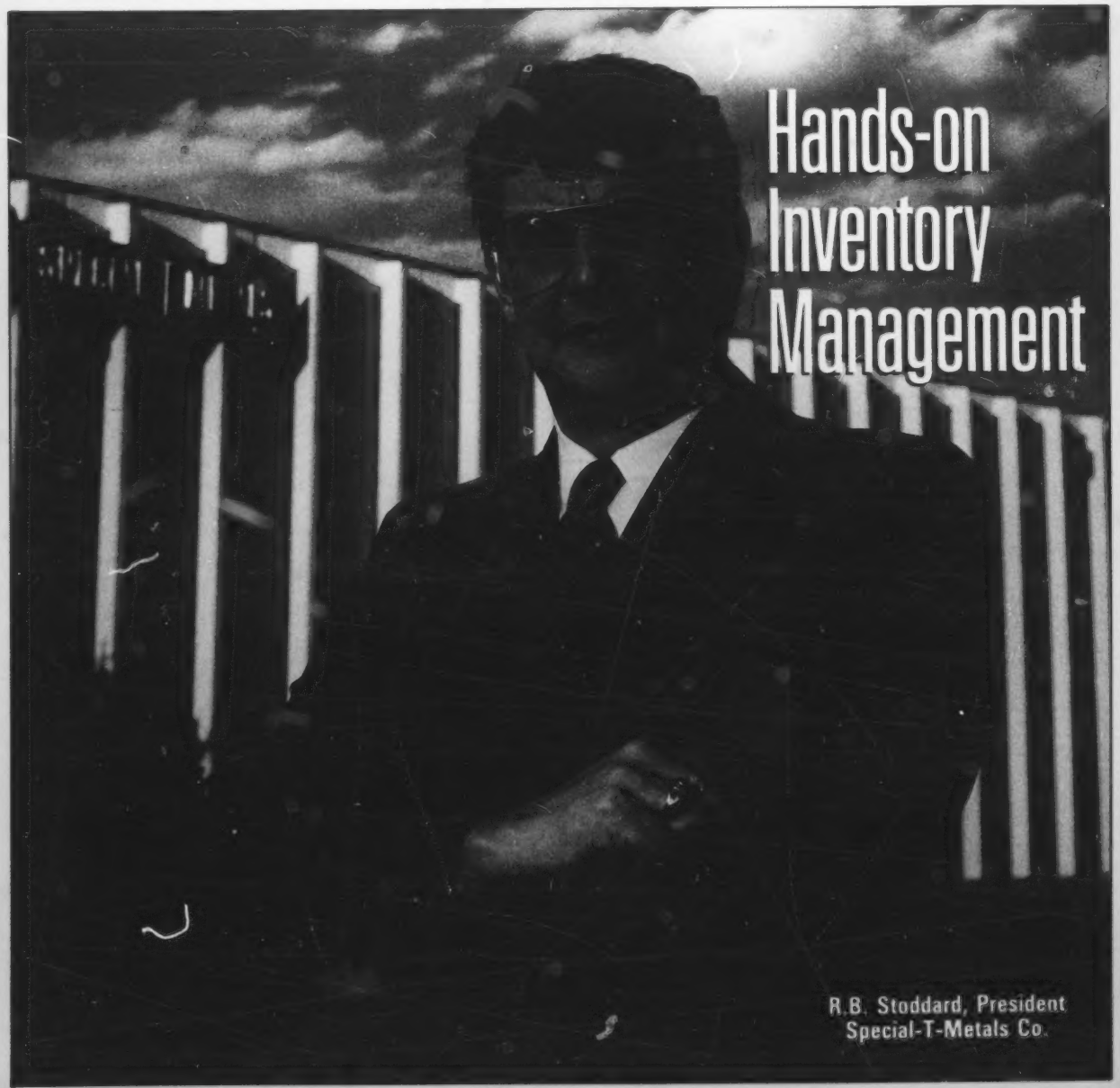
JUNE 1988
A CAHNERS PUBLICATION

Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Review of Computing Choices



Hands-on Inventory Management

R.B. Stoddard, President
Special-T-Metals Co.

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 6 JUNE 1988 A CAHNERS PUBLICATION

Bob Barrett

R.B. Stoddard, Special-T-Metals Co., describes how inventory management results in 95% service levels.

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How Special-T-Metals, a stainless steel fastener distributor, tracks a 35,000-item inventory, including nearly 12,000 imports with leadtimes of up to 9 months.

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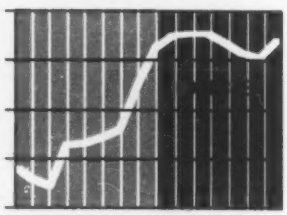

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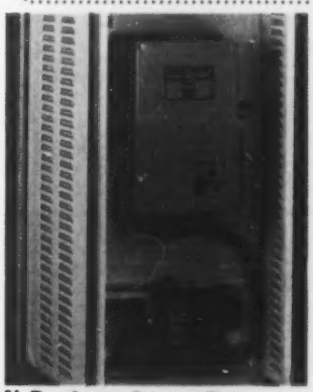

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The newest products available from manufacturers.

BUSINESS REPORT

BY KRIS BLEDOWSKI

Primary products lead expansion

But advance process industries will catch up

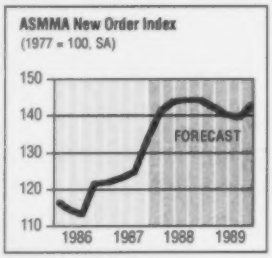
U.S. manufacturing seems to be a bit off balance. While the cheap dollar stimulates exports of metals, paper, chemicals, rubber, and other raw materials, advance processors, which make autos, machinery, appliances, etc., are lagging behind. Primary producers are operating at over 88% of capacity, with paper leading the way at over 98%. Advance processors, on the other hand, are operating at only about 82% of capacity, below the high 85% level reached in late 1978.

The reason for this lies, in part, in export markets. The dollar has declined over 30% against a basket of major currencies since its 1985 peak; this should stimulate the demand for U.S. goods abroad. American manufacturers, however, are still having trouble selling foreigners on the quality of American products. Steel, paper and other primary materials run into few such problems.

Another reason relates to the supply side. After the boom of the late '70s, the world economy was stuck with excess capacity for industrial materials in the early 1980s. This has led U.S. companies to stop investing in plants and machinery. In some cases capacity was reduced.

The question is whether the advance process industries can partake in the general business expansion. It seems that with the weak dollar to stay, U.S. manufacturers should regain some of their lost markets overseas.

The only worry is of overheating when the primary product industries run out of production capacity. Even a moderate increase in the demand for primary products, such as steel and plastic for the auto and heavy machinery industries, can fuel inflation. So what may happen later this year is a situation in which advance processors have lots of orders but can't get the metals, chemicals and other materials to fill those orders. □



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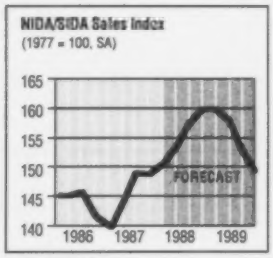
Forecast source: Cahners Economics



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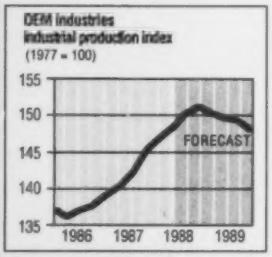

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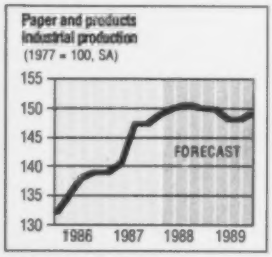

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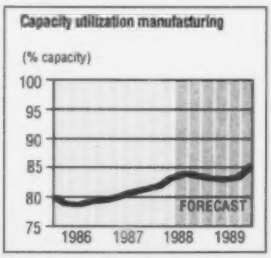

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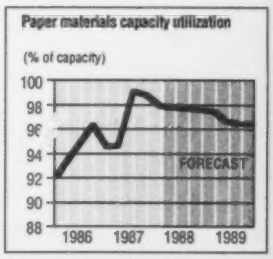


Data source: Federal Reserve Board
Forecast source: Cahners Economics

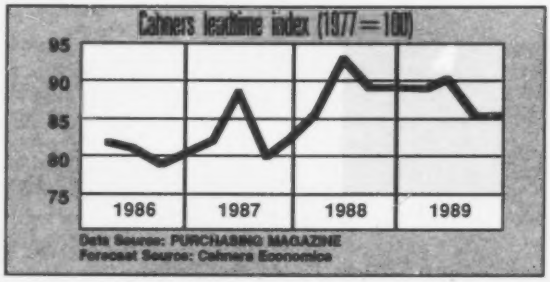
SALES BY REGIONS (% change)	SALES (%) February '88 vs. February '87			RECEIVABLES (# of days) Feb. '88 vs. Feb. 87						INVENTORIES		
										Remain		
	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Gen.	Spec.	Comb.	Increase Levels	The Same	Decrease Levels
NEW ENGLAND CT, RI, MA, NH, VT, ME	10	5	18	59	39	42	70	41	42	40	50	10
MID-ADLANTIC NY, NJ, PA	12	21	105	46	45	51	51	52	48	52	36	12
SOUTHEAST DE, DC, MD, VA, WV, GA, NC, SC, FL	11	36	–17	45	60	32	59	59	34	46	31	23
NORTH CENTRAL OH, IL, IN, MI, WI	16	16	27	31	41	44	29	39	47	57	34	9
SOUTH CENTRAL AL, MS, KY, TN	17	31	18	40	40	41	40	43	40	48	37	14
MIDWEST MN, ND, DS, IA, NE, KS, MO	41	40	29	33	30	57	36	33	58	42	39	18
SOUTHWEST AR, LA, OK, TX	6	16	19	29	45	46	30	43	43	27	32	41
MOUNTAIN NM, AZ, CO, UT, NV, WY, MT, ID	60	44	54	47	40	28	54	39	26	50	38	12
PACIFIC CA, OR, WA	5	49	34	41	36	37	41	38	37	44	44	11
U.S. TOTALS	17	28	37	41	42	45	43	43	45	46	38	16

SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Leadtimes to remain high

Forging industry leads the way

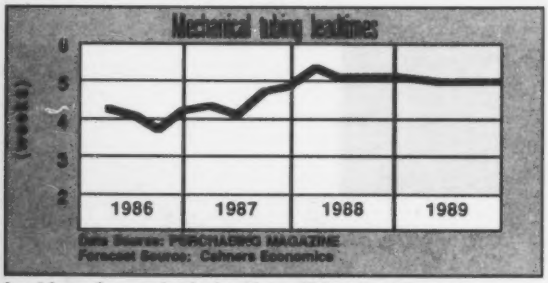


The Cahners Leadtime Index dropped 2.3% in April compared with March, the second consecutive month of decline. A composite of 85 industrial leadtimes, the index is derived from exclusive data furnished by purchasing managers and agents for the nation's largest corporations. In spite of the monthly declines, leads were still 4.4% longer in the first quarter of '88 than in the same period last year. In fact, they are expected to stay high, about the value of 80 to 88, through the end of the year. This high leadtimes level is in response to generally high capacity utilization that is occuring in manufacturing industries.

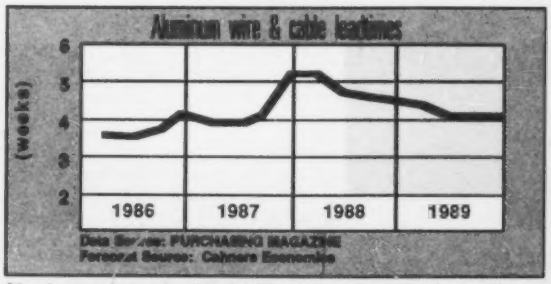
Leadtimes for mechanical tubing, aluminum wire and cable, stainless bars and rods, as well as wire were all higher in the first quarter of '88 than in either the same period last year or the last quarter of '87. This reflects booming shipments and bookings in the forging industry. The latter were up by 15% in 1987 over 1986.

Growth in bookings of impression die forgings for March was even more impressive: up 19% from February and 24% from March '87. This was the highest monthly order booking figure since March 1980.

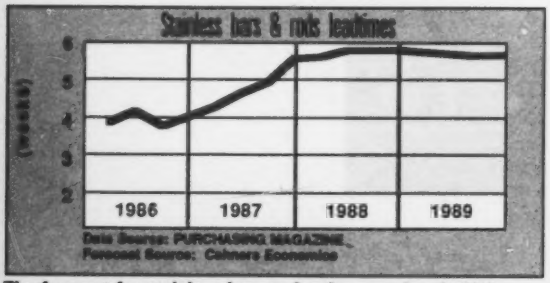
"In 1987 the U.S./Canadian forging industry appeared to have turned the corner toward achieving a comeback," says Forging Industry Assn. Executive Vice President R.W. Atkinson. "The value of the U.S. dollar has been virtually halved since 1985 when compared to the mark and the yen. During that same period labor costs in Germany and Japan have risen approximately 40%, while U.S. unit labor costs have been relatively stable . . . Also, many forging companies have shown they can ship more product with a significantly smaller workforce than five years ago . . . All these factors have contributed to a feeling of improved competitiveness and that better times are ahead." □



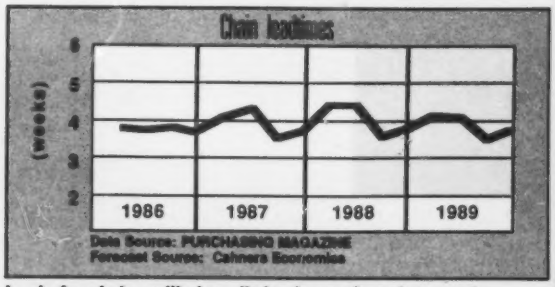
Leadtimes for mechanical tubing will be about 5 weeks throughout 1988, up more than 10% from a year ago.



Aluminum wire and cable leadtimes have increased steadily since '86, reflecting growing demand and capacity utilization.



The forecast for stainless bars and rods sees sharply higher leadtimes in '88: 17% higher on average compared with '87.



Leads for chains will show little change from last year's pattern, oscillating around 4 weeks.

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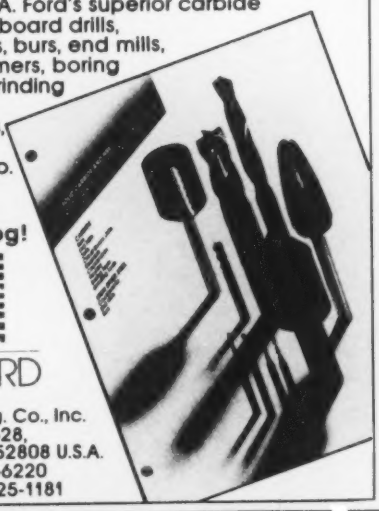

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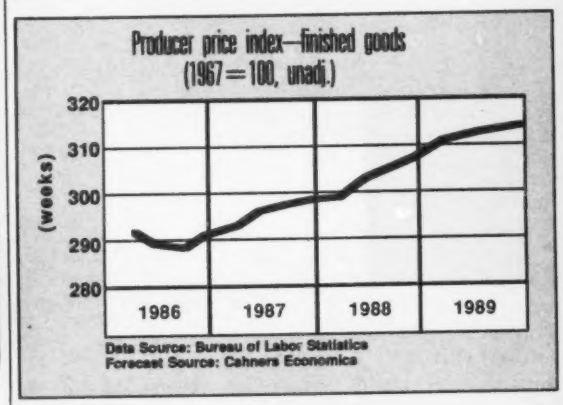
SUPPLY OUTLOOK

Sharp price advances for intermediate materials

In March, prices for intermediate materials, supplies and components registered their largest monthly increase since July 1987. The producer price index for those materials rose 0.6 % between February and March, according to data released by the U.S. Dept. of Labor.

The largest jump has occurred in primary manufacturing industries, including metals, paper and petrochemicals, which are operating at high levels of capacity utilization. Large advances were also posted in leather, plastic resins and fabrics.



The producer price index for finished goods moved up 0.6%, seasonally adjusted, from February to March.

The prices of 13 leading raw materials will moderate this year after a dramatic rise in 1987.

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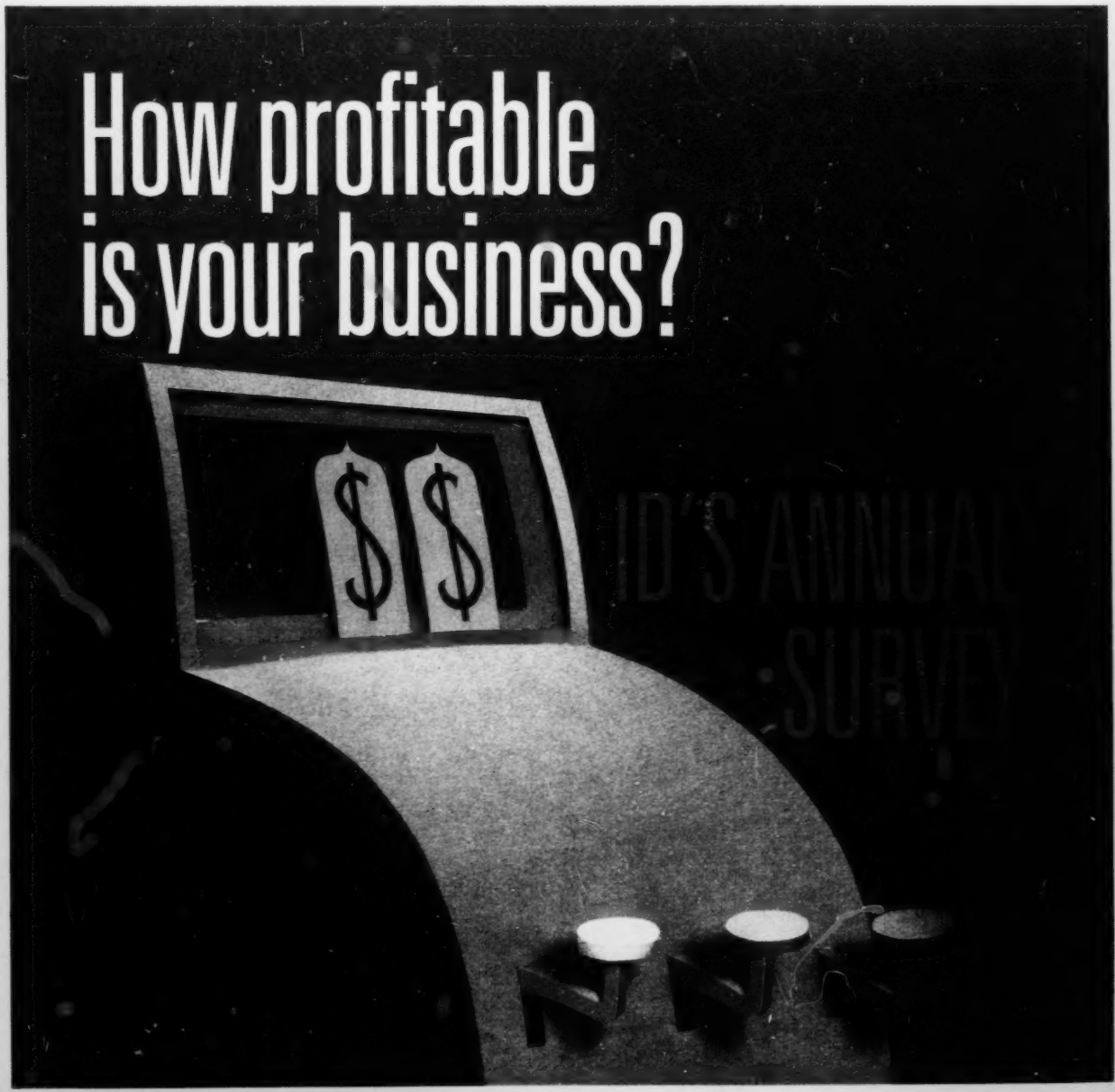
JULY 1988
A CAHNERS PUBLICATION

Industrial Distribution®

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:
Selling safety equipment

How profitable is your business?



Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 77, NO. 7 JULY 1988 A CAHNERS PUBLICATION

COVER STORY—

28 ID's 42nd Annual Distributor Survey

Distributors racked up $92 billion in sales during 1987 according to our exclusive survey of distributor operations, a special 11-page report.

CONVENTIONS

44 Partnerships grow at the '88 Triple

Productivity, personnel, profit, and partnering were the buzzwords at the '88 Triple. A team of five veteran ID editors was there to provide in-depth coverage of the event.

SELLING

53 Expertise drives safety sales

How technical knowledge will help you sell safety equipment. Part of ID's "How to Sell" series.

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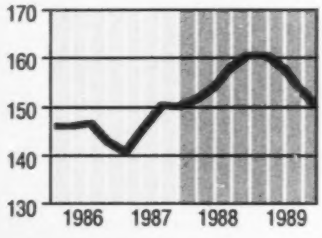
Prices kept in check as productivity increases and companies invest in capital equipment.



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Economy at full employment with no recession seen through '88.

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Smaller distributors respond to giants via buying groups.

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It takes people to grow your business.

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Catalog selling on a roll . . . Ask suppliers for bar codes . . . Buying groups getting bigger.

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NIDA and SIDA overwhelmingly vote to form a single, unified association.

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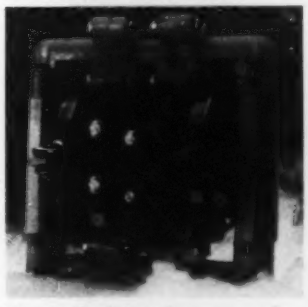
Comparing E-mail and on-line communication options.

69 Products for Profit



Here's the latest in new products available from leading manufacturers.

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42ND ANNUAL SURVEY

Sales reach $92 billion mark

By John G.F. Bonnanzio, Associate Editor

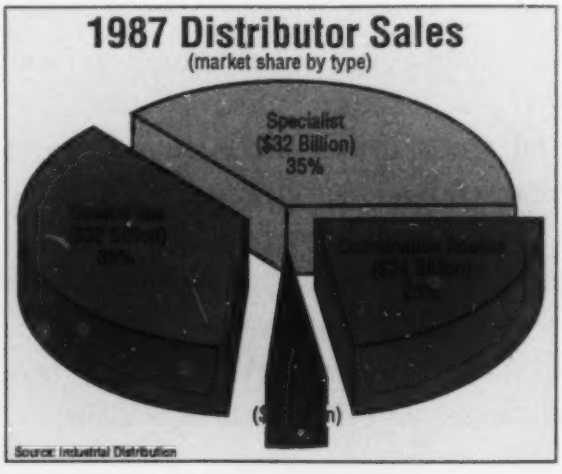
Based on the results of INDUSTRIAL DISTRIBUTION's *42nd Annual Survey of Distributor Operations*, one might think that 1987 was a year for giving thanks.

According to the *Survey*'s respondents, last year general line and specialty distributors increased their sales an average of 5%. In stark contrast, combination houses (those businesses selling to wholesale and non-industrial markets), enjoyed a phenomenal year, with median average sales rising 12%. Distribution's strong showing for the year is in obvious response to manufacturing's robust performance, where overall output climbed 5.9% in 1987.

For some distributors, sales gains were even more spectacular, as increases of 20, 30 and even 40% from a year earlier were posted. In fact, based on estimates prepared by ID for this report, 1987 industry sales reached an all-time high of $92 billion which, in data supplied by over 400 companies, is $4.6 billion greater than 1986 sales (see box).

With so much good news around, one might reasonably believe that all is well with distribution, and that fears of mergers and acquisitions have been vastly overstated. But in spite of healthy sales and improvement to return on investment (ROI), there is an interesting footnote to the *Survey*. When asked to evaluate distribution's bottom line, nearly 6 respondents in 10 indicated that profitability will be more difficult to maintain during the next 5 years.

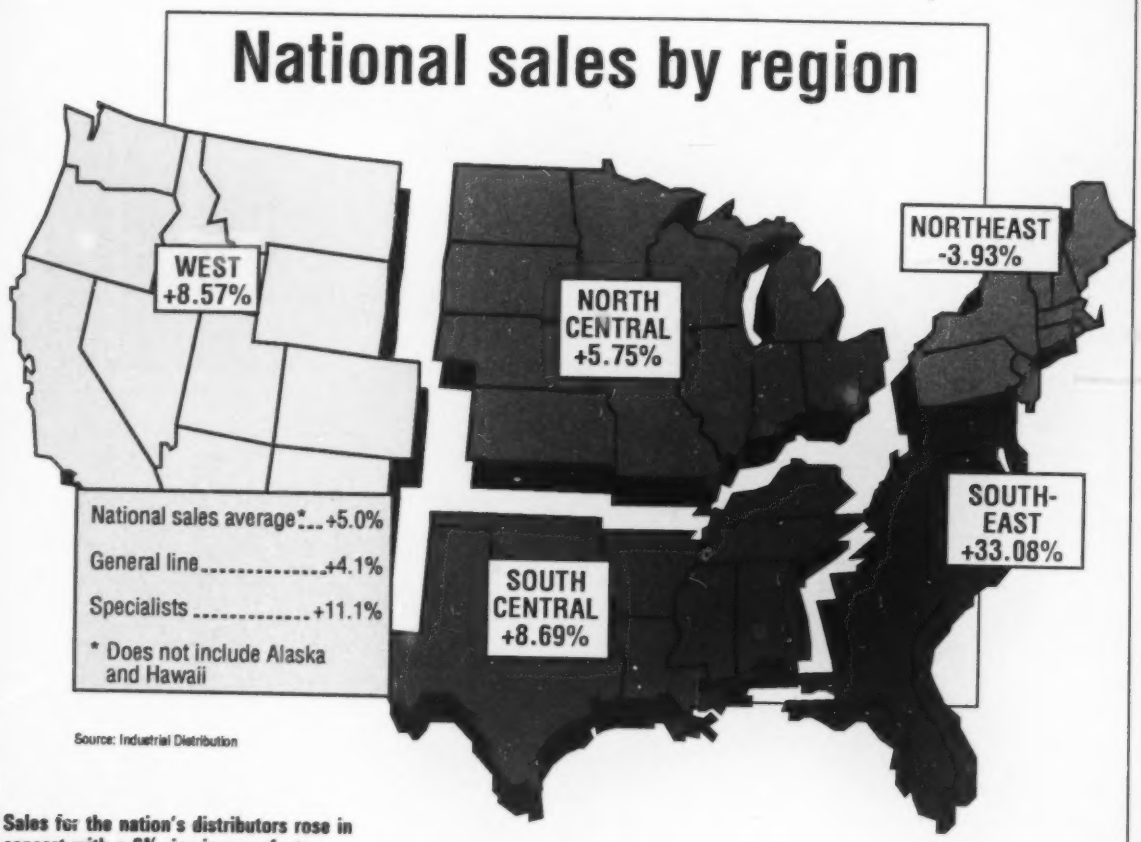
Despite these dour forebodings, optimism was not altogether absent. In fact, 96% thought that 1988 sales will finish ahead of 1987, while less than 5% expected to see sales decline.



Sales and profitability are, however, very different stories. And the question must be raised as to why distributors' sales are lagging behind manufacturers' shipments, even if that difference is a mere one percent.

In the survey that follows, ID examines some of the more revealing aspects of the industrial distributor's operations: sales and profitability, operating costs, management, inventory, receivables, personnel, and warehousing. Although the results indicate few threatening trends, there is some important evidence that profitability is eroding in the face of increasing sales, and that distributors are hesitating to capitalize on technologies and operating methods that are widely thought to enhance sales and profits.

To understand how these trends affect your company, a chart is provided on p. 41 for rating your performance.



Sales for the nation's distributors rose in concert with a 6% rise in manufacturing's output.

SALES & PROFITABILITY

For respondents to ID's questionnaire, the median average distributor had 1987 sales of $2.1 million versus $2.0 million in 1986. This is an annual increase of 5%.

Sales for the average general line distributor were $2.5 million in 1987, while specialty houses managed to sell $2.0 million worth of goods and services. There was little difference between specialists and generalists, large distributors and small, in terms of profitability.

In the five geographic regions of the U.S. analyzed in the *Survey*, only Northeast distributors posted decreased sales during 1987. Charging ahead in sales was the Southeast (+33%), reflecting a recovery in farming, textiles, woodworking, paper and pulp production, as well as new construction.

As expected, the North Central states showed signs of renewed life. Although sales were up a very disappointing 5.75%, they were still slightly ahead of the national average. While a number of companies such as Caterpillar increased payrolls in 1987, the auto sector's modest improvement failed to provide the kind of sales that many had anticipated.

Upon close examination of individual questionnaires, there is no doubt that many distributors in the autobelt had a successful year. Just as apparent, however, is that the region also had some big losers which, in statistical terms, may have preempted some of the gains posted by the "winners."

In the South Central region, continuing population growth translated into sales increases of 8.69%. While part of the area's gains were undoubtedly absorbed by the oil patch states, sales in Tennessee and Kentucky increased largely with the arrival of foreign and domestically controlled auto assembly plants.

Further south in the Panhandle, rotary rig activity is not expected to improve without higher oil prices, and OPEC's inability to orchestrate pricing seems to assure that cities like Houston are not likely to rebound any time soon.

Another laggard in the geographic group was the Northeast. While the "Massachusetts Miracle" has recently received attention, in reality, the Bay State has continued to lose much of its manufacturing base to the service sector. Meanwhile, New York, because of fewer jobs, is watching its population move southward in ever greater numbers.

There are some bright spots in the area, however, as Maine, New Hampshire and Vermont have all geared up lumber, paper and residential construction business.

In last year's survey, distributors in the West and Mountain states predicted that sales would increase 10.4% in 1987. Perhaps somewhat optimistic, they nonetheless fared well, posting gains of 8.57%. In a region that combines aerospace, high technology, energy, farming, fishing, and lots of construction, it can be argued that as the West goes, so goes the nation. During the year, the nation did in fact boost its gross national product 2.9% while managing to hold inflation in place at 3.7%. The West apparently responded in kind.

PROFITABILITY

If in business the name of the game is sales, then certainly the winner can be called profitability. In this area of industrial distribution, interpreting figures can be as valuable as it is misleading.

For example, gross profits industry wide increased in 1987, with little difference to be found between generalists (+4.1%) and specialists (+3.7%). However, while total operating expenses increased 4.3% for the industry, generalists proved far less efficient in controlling their expenses (+6.5%), as compared to specialists who reined in their costs at 2.1%.

In examining ROI, the ultimate measure of a company's profitability, one can see that in spite of improving sales, little headway has been made towards adding black ink to the industry's bottom line. In fact, between 1987 and 1986 ROI remained unchanged at 8.0%.

While general liners lost a half percentage point of net worth during the year, specialists managed to increase that measure by a full one percent. The reason? That is more difficult to explain, although one obvious relationship worth mentioning involves distributors who are computerized and those who are not.

Nearly three-quarters of all industrial distributors asked use computers for a variety of business applications. According to last year's survey, the vast majority use their installations for all the traditional purposes: inventory, purchasing, accounts receivables and payables, order entry, etc. This year's survey found, however, that ROI for computerized distributors is 9% versus 7% for non-computerized distributors.

Further, when ROI was calculated to determine profitability in 1986, computerized distributors once again outperformed those without computers. (See "How computerized and non-computerized distributors compare" on p.39.)